ANNUAL REPORT 1973

file

subsid. of Wardair International Ltd.

WARDAIR CANADA LTD.

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highlights - 1973

	1973	1972	Change
Operating revenue	28,675,367	19,671,310	45.8%
Operating expenses, before depreciation & amortization	23,654,421	18,044,014	3.1.%
Cash operating income	5,020,946	1,627,296	208.5%
Depreciation & amortization	2,380,184	1,301,297	82.9%
Net Earnings for year	913,781	271,996	236.0%
Operating ratio	9.2%	1.2%	666.7%
Return on investment	7.9%	8.6%	8.1%
Earnings per share	28.2c	8.4c	235.7%

To Our Shareholders and Employees

Your Company realized a consolidated net profit of $913,781 or 28.2c per share, from its 1973 operations. These results reflect an improvement of 236% over 1972 year-end earnings of $271,996 or 8.4c per share. Gross operating revenues increased from $19,671,310 during 1972 to $28,675,367 during 1973, an increase of 46%.

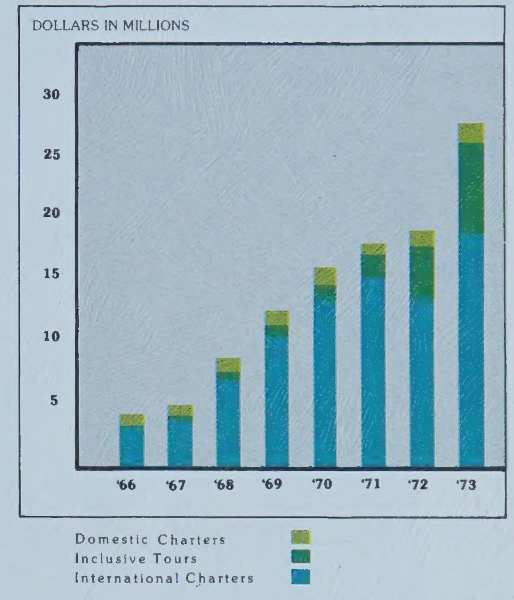
International Operations

The Boeing 747 aircraft acquired by the Company during May of 1973 proved to be the right aircraft on our routes when coupled with the Advance Booking Charter concept introduced by the Canadian Government and Governments of the United Kingdom and other European countries to replace the affinity charter rules previously in effect. Accordingly, our financial operating results up to the end of the North Atlantic demand period were very good, but we lost ground during the last quarter of 1973.

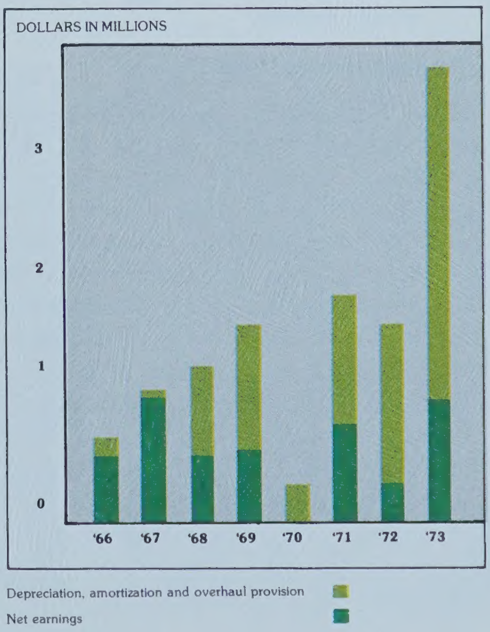
Over the years we have increased our seasonal availability and expanded demand for our charter flight product between Canada, the United Kingdom and Europe from a two-month period in 1962 to a five-month period in 1973. In addition, we have concentrated our efforts to develop a market for our services to winter sunspot package holiday destinations during a four-month period each year.

In order to achieve higher aircraft utilization during the winter months and extend the historical winter holiday demand period beyond the traditional four-month period each year, we must continue to influence the sociological holiday patterns of the Canadian public. In 1974 we will endeavour to obtain greater aircraft utilization during the Fall and pre-Christmas period by providing the public with excellent package holiday products at extremely attractive prices through tour operator customers such as Fiesta, Fairway Tours, Skylark, Elkin Tours, Travel Fun Tours and Hilltours in an effort to bolster revenues during the last quarter of the year.

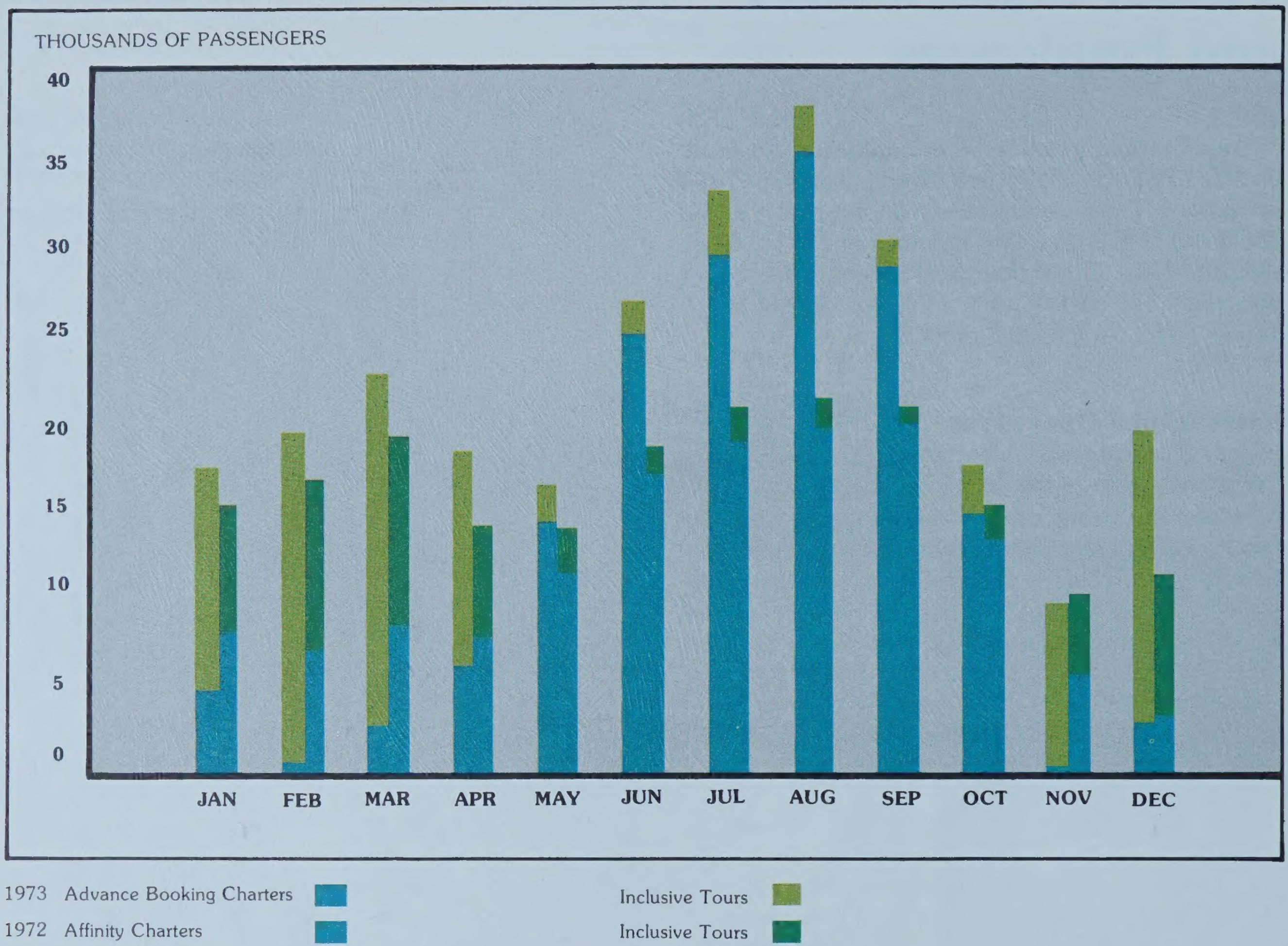
Revenue



Cash Flow From Operations



Passengers Carried



Northern Operations

The Northern Operations increased gross revenues by 42.3% during 1973 and again contributed to the Company's profit position. In keeping with the long term corporate planning of providing the Northern Operations with independent aircraft overhaul and maintenance facilities at Yellowknife, we have programmed a large hangar to be built on the Yellowknife Airport. The foundation for this hangar was poured during the Fall of 1973 and steel construction will commence upon arrival of the Spring weather. This hangar will accommodate aircraft up to the Boeing 707 in size and has ample adjacent shop and office space to handle our Northern Operations' requirements for many years. The hangar is scheduled for completion by the Fall of 1974.

General

Wardair has not suffered a flight cancellation due to a shortage of fuel; however, fuel price increases have been staggering. We are passing these fuel cost increases on to the travelling public, although the enormity of the fuel price increases is inhibiting our capability to escalate air fares to duly reflect other cost increases.

The transaction by which Air Canada would acquire a one-third share interest in Wardair remains in escrow while the terms are being negotiated and at this time no date for completion of the transaction has been established.

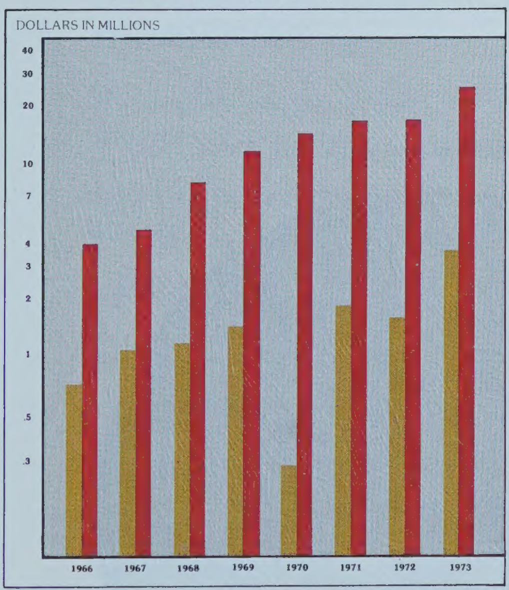
Wardair's Collective Bargaining Agreement with the International Association of Machinists and Aerospace Workers representing certain Maintenance and Engineering employees, expired on December 31st, 1973. A two-year contract renewal was concluded with the I.A.M. during March, 1974.

Wardair's Collective Bargaining Agreement with the Canadian Air Line Flight Attendants Association (C.A.L.F.A.A.) representing flight attendants in the employ of the Company expired on March 31st, 1974. Collective bargaining between C.A.L.F.A.A. and Wardair for terms and conditions of employment commencing April 1st, 1974 was started in January, 1974.

In February, 1974 the Canadian Transport Commission denied Wardair's long-standing application for additional Northern Operation's bases at Inuvik and Norman Wells, N.W.T. on the basis of its finding that these areas are adequately served by present fixed base Class 4 operators. In view of what we believe to be strong and clear evidence to the contrary, we fully intend to pursue this matter in further proceedings.

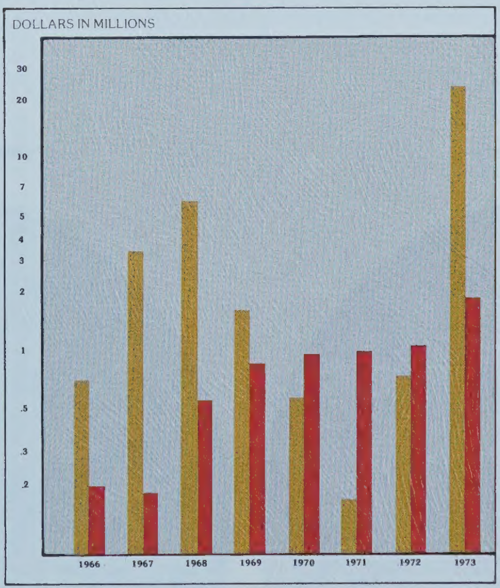
Wardair's interface with the Canadian Transport Commission has been a continuing subject of top management attention. It is only through an effective working relationship between the airline industry and government that mutual interest in the future well-being of the commercial aviation industry can be explored. We believe these mutual interests are best served by a frank interchange of ideas and data with government regulatory bodies to accomplish our common goals to maintain a sound progressive air transport policy within a free enterprise framework. Wardair and its associated companies have been, and will continue to be, leaders in the industry in urging enlightened government policy that provides a broader access by the public to low cost holiday transportation.

Cash Flow vs Operating Revenue



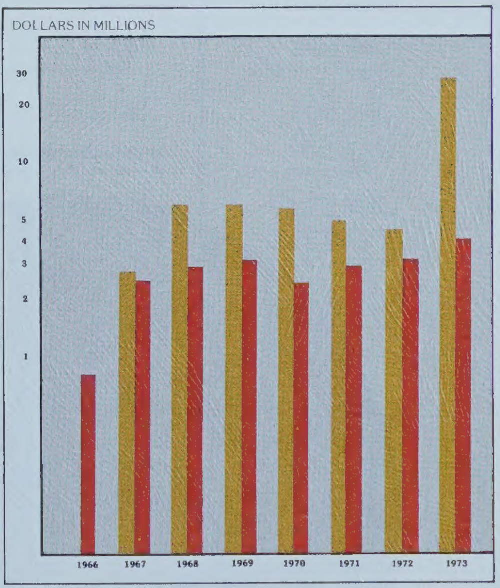
Cash Flow
Operating Revenue

Capital Expenditure and Depreciation



Capital Expenditures
Depreciation

Debt vs. Equity



Debt
Equity

Outlook

Although 1974 winter holiday traffic has been good and as of this early date, Canadian-originating Advance Booking Charter sales on the North Atlantic are good, concern regarding sales of British-originating North Atlantic traffic and escalating airline operating costs dissuade us from forecasting the 1974 financial result outlook at this time.

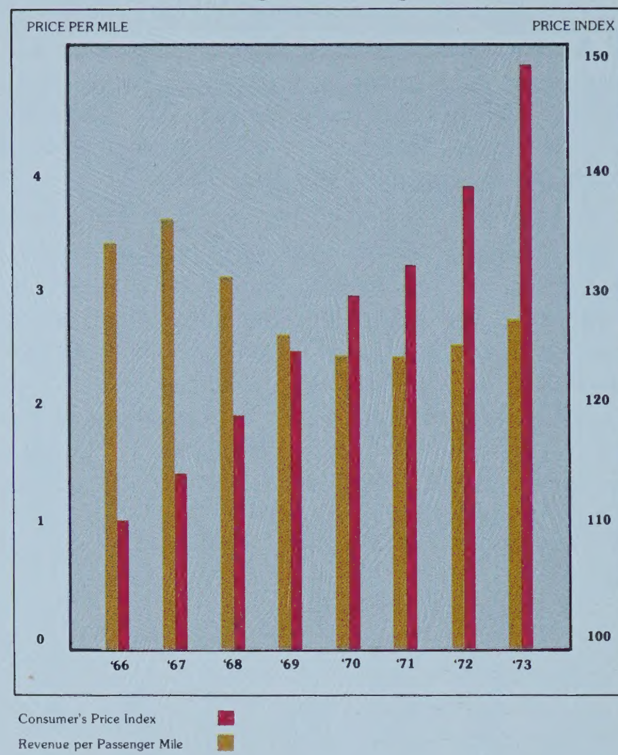
In closing, the Directors and Officers of the Company must pay special tribute to the employees of Wardair, International Vacations and Canada-U.K. Travel for their untiring efforts in contributing to the results we had during 1973.

The integration of the 747 into our fleet was no small task and our employees responded extremely well to the challenge presented to them. The rapid expansion of Intervac and its conversion to computers, the achievements of our Northern Division employees and the Canada-U.K. staff, all added up to a sound, efficient operation in 1973. As a result, we are confident we can accept new and greater challenges in the coming year.

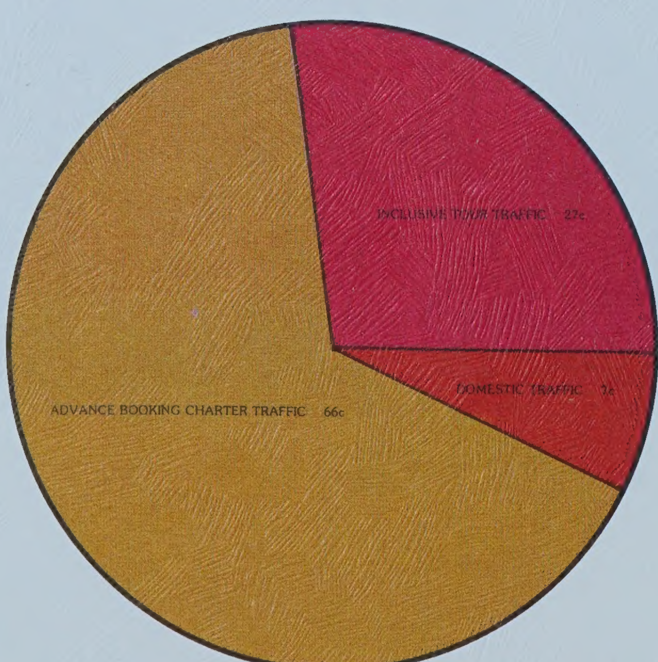
Maxwell W. Ward

MAXWELL W. WARD
President.

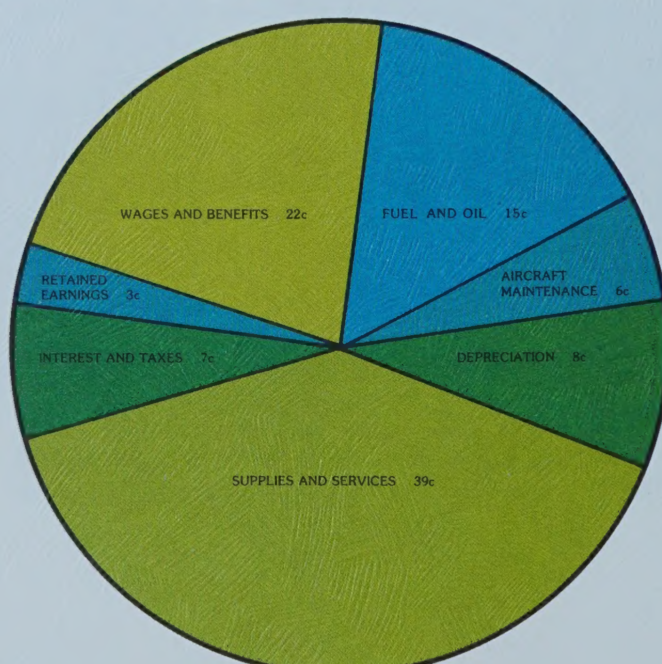
Cost of Living Vs Passenger Fares



SOURCE OF REVENUE - 1973



DISTRIBUTION OF REVENUE DOLLAR - 1973



CONSOLIDATED STATEMENT OF

Earnings and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	1972
OPERATING REVENUE	$28,675,367	$19,671,310
OPERATING EXPENSES		
Flying operations	15,199,580	12,211,777
Aircraft, traffic and passenger services	4,682,414	3,408,715
Sales and promotion	2,406,559	1,320,451
General and Administration	1,365,868	1,103,071
Depreciation and amortization (Note 1)	2,380,184	1,301,297
	26,034,605	19,345,311
Income from operations	2,640,762	325,999
INTEREST ON LONG-TERM DEBT	1,877,191	469,773
	763,571	(143,774)
OTHER INCOME, net	150,210	248,260
Earnings before tax recovery	913,781	104,486
Income tax recovered	--	167,510
NET EARNINGS (Note 8)	913,781	271,996
Retained earnings at beginning of year	2,472,875	2,200,879
RETAINED EARNINGS AT END OF YEAR	$ 3,386,656	$ 2,472,875
EARNINGS PER SHARE (Note 6)		
Earnings before tax recovery	28c	3c
Net earnings	28c	8c

CONSOLIDATED

Balance Sheet

AS AT DECEMBER 31, 1973

ASSETS

	1973	1972
CURRENT ASSETS		
Cash	$ 2,066,439	$ 73,996
Accounts receivable - trade	318,070	202,350
other (note 2)	135,478	235,991
Inventories of materials and supplies at the lower of laid-in cost and net realizable value	1,254,736	1,024,955
Prepaid expenses and deposits	440,774	575,210
	4,215,497	2,112,502
FIXED ASSETS, at cost		
Flight equipment	39,736,803	14,078,494
Land, buildings and equipment	3,148,242	1,665,338
	42,885,045	15,743,832
Accumulated depreciation	6,875,534	5,634,139
	36,009,511	10,109,693
DEFERRED CHARGES (note 3)	1,409,138	866,469
OTHER ASSETS (Note 4)	390,808	419,636
	$42,024,954	$13,508,300

Signed on behalf of the Board

Maxwell W. Ward.
.... Director

.... Director

LIABILITIES

	1973	1972
CURRENT LIABILITIES		
Bank indebtedness	$ --	$ 300,000
Accounts payable and accrued liabilities	3,243,818	2,502,179
Charter prepayments	2,175,199	1,261,859
Current maturities on long-term debt	2,127,466	1,221,874
	7,546,483	5,285,912
PROVISION FOR AIRCRAFT OVERHAUL (Note 1)	1,194,126	797,331
LONG-TERM DEBT (Note 5)	28,883,413	3,937,906

SHAREHOLDERS' EQUITY

	1973	1972
CAPITAL STOCK (Note 6)		
Authorized 5,000,000 common shares of no par value		
Issued 3,237,566 shares	1,014,276	1,014,276
RETAINED EARNINGS (Notes 7 & 8)	3,386,656	2,472,875
	4,400,932	3,487,151
	$42,024,954	$13,508,300

CONSOLIDATED STATEMENT OF

Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	1972
SOURCE OF FUNDS		
Net earnings	$ 913,781	$ 271,996
Non-cash items		
Depreciation	2,249,506	1,217,113
Amortization of deferred charges	130,678	84,184
Provision for overhaul	396,795	(137,434)
Funds provided from operations	3,690,760	1,435,859
Sale of fixed assets, net of gains and losses	761,125	38,778
Proceeds from long-term debt	27,580,334	539,868
Conversion of debentures to share capital	--	1,000
Other assets	28,828	30,364
Deferred charges recovered	228,746	215,720
	32,289,793	2,261,589
APPLICATION OF FUNDS		
Fixed asset acquisitions	28,786,201	839,283
Reduction of long-term debt	2,634,827	1,488,390
Deferred charges incurred	1,026,341	65,751
	32,447,369	2,393,424
DECREASE IN WORKING CAPITAL	157,576	131,835
Deficiency in working capital at beginning of year	3,173,410	3,041,575
DEFICIENCY IN WORKING CAPITAL AT END OF YEAR	$3,330,986	$3,173,410

Notes to 1973

CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, International Vacations Ltd. and Canada-U.K. Travel Centre Limited. All inter-company transactions have been eliminated.

The financial statements for the year ended December 31, 1972, as previously reported, have been reclassified where applicable to conform with the presentation used in the current year.

b. CONVERSION OF FOREIGN CURRENCIES

Current assets and current liabilities in Sterling funds have been converted into Canadian dollars at the rate of exchange prevailing at December 31, 1973.

c. DEPRECIATION

For financial reporting purposes, depreciation on flight equipment is computed on the straight-line method as follows:

Jet aircraft and related equipment - over 14 years to 15% residual value

Other aircraft and related equipment - over 12 years to 15% residual value

Other equipment and property is amortized at various rates over the estimated life of the asset.

During the year, the estimated useful life of the Boeing 707 aircraft was increased from 12 to 14 years. As a result, depreciation expense for the year was $131,000 less than it otherwise would have been.

d. PROVISION FOR AIRCRAFT OVERHAUL

The company provides for major engine and airframe overhauls on the basis of hours of operation except for the Boeing 707 airframes. The Boeing 707 airframes are overhauled in accordance with a progressive maintenance programme incorporating periodic shop visits and costs are expensed as incurred.

2. ACCOUNTS RECEIVABLE

Accounts Receivable - Other includes advances to company officers in the amount of $47,258.

3. DEFERRED CHARGES

	Amortization on Straight-Line Basis	1973	1972
Training expense:			
Boeing 747 -	ten years to 1983	$ 194,000	$ -
Other -	seven years to 1980	280,407	474,915
Lease costs	five years to 1978	481,069	23,310
Traffic development	five years to 1978	304,402	60,099
Computer programs	five years to 1978	93,795	-
Debenture issue expense	the term of the debenture	55,465	61,864
Inclusive tour development			246,281
		$1,409,138	$866,469

In 1973, at a cost of $500,000 the company obtained an unconditional release from its share option and/or cash payment commitments previously made with the Lessor of the Boeing 707. This cost is included in lease costs and is being amortized over the remaining period of the Boeing 707 lease.

4. OTHER ASSETS

Other assets represents advances made for the development of inclusive tour markets and is secured by a debenture. Under the terms of the debenture, repayment will be in varying amounts over eight years, including interest at 6% per annum.

5. LONG-TERM DEBT

	1973	1972
6.50% Convertible debenture - Series A September 15, 1982; with annual purchase fund payments of $200,000 in the years 1974 and 1975, $250,000 from 1976 to 1978, $300,000 from 1979 to 1981, and a final payment of $550,000 in 1982. These commitments may be satisfied by cash payment, purchase of debentures in the open market at par or less, by redemption or by conversion to common shares	$ 2,375,000	$ 2,799,000
8.077% Conditional Purchase Agreements, due April 1983 with semi-annual payments on principal and interest of $2,086,909 commencing October 1974. The agreements are secured by the Boeing 747 and its ancillary equipment acquired together with a subordinated debenture on one Boeing 707	26,310,335	--

9.55% Debenture, due February 1975 with monthly installments totalling $910,000 in 1974, secured by first fixed and floating charges on all property and assets	910,000	1,843,881
10.00% Debenture, due February 1979 payable in equal monthly installments, secured by a first fixed charge on specific aircraft and other security	398,474	475,594
Bank Term Loan, with interest at 1.5% above the prime lending rate, payable with monthly installments totalling $154,000 in 1974, $166,000 in 1975, $178,000 in 1976, $190,000 in 1977, $207,000 in 1978 and $90,500 in 1979. The loan is secured by a chattel mortgage on three Twin-Otter Series 300 aircraft	985,500	---
Mortgages	31,570	41,305
	31,010,879	5,159,780
Current maturities	2,127,466	1,221,874
	$28,883,413	$3,937,906

The 6.50% convertible debenture - Series A trust indenture provides for: redemption at the option of the company, in whole or in part, subsequent to September 15, 1972 and before maturity, at varying prices reducing from 106.5% to 100.65%.

The covenants of certain long-term debt agreements require prior approval for:

1. Capital expenditures
2. Additional debt obligations
3. Issuance of share options to officers
4. Payment of dividends
5. Investments and guarantees

Maturities on existing long-term debt for each of the four years subsequent to 1974 are as follows:

1975 - $2,526,649
1976 - $2,817,521
1977 - $3,054,590
1978 - $3,318,433

6. CAPITAL STOCK

The 6.50% convertible debenture - Series A is convertible into common shares at the option of the holder on or before September 16, 1974 at the rate of $7 per share.

Of the authorized and unissued common shares, 339,285 shares have been reserved to provide the maximum number of shares that may be required for conversion of the outstanding 6.50% debenture. The issuance of these shares will have no dilutive effect on earnings per share.

7. COMMITMENTS AND SUBSEQUENT EVENTS

The company has under lease until 1979 a Boeing 707 jet aircraft at an annual rental of $1,358,000 (U.S.) with an option to purchase the aircraft at the expiration of the lease for $1,500,000 (U.S.).

The lease agreement restricts payment of dividends, capital expenditure, redemption of stock and similar distributions, except with concurrence of the Lessor.

The company has commenced construction of a hangar at Yellowknife, N.W.T. for completion in September 1974 at an approximate cost of $750,000, for which term financing will be arranged.

The company and its subsidiaries are obligated under long-term lease agreements for aggregate basic annual rentals of approximately $1,856,000, $1,656,000, $1,641,000, $1,571,000 and $1,535,000 in each of the years ending December 31, 1974 to 1978 respectively.

The 1972 share purchase agreement between a major Canadian air carrier and the company's principal shareholder is still under negotiation. It is not known at this date what effect, if any, the transaction will have on the financial position of the company when consummated.

An action has been commenced against Wardair in The High Court of Justice, Queen's Bench Division, England, alleging a repudiation and breach of contract by Wardair in failing to give the plaintiff proper notice of termination of a handling contract between the plaintiff and defendant and for breach of said contract. Wardair has denied liability and believes, on the advice of counsel, that the action will be successfully defended.

8. INCOME TAXES

The company claims capital cost allowances and other deductions allowed for income tax purposes in excess of the related amounts reflected in the accounts, and provides in its accounts only for the taxes payable on its taxable income for the year.

This accounting treatment differs from the tax allocation basis under which the income tax provision is based on earnings reported in the accounts. If the tax allocation basis had been followed in current and prior years, earnings for the year would have been reduced by $415,000 ($187,000 in 1972) and reported net earnings per share would have been: 1973 - $0.15, 1972 - $0.03. The cumulative amount by which retained earnings would have been so reduced to December 31, 1973 is $1,260,000.

Notwithstanding the fact that the Accounting Research Committee of the Canadian Institute of Chartered Accountants recommends the tax allocation basis for all but regulated corporations, company management does not concur that this method is appropriate. The capital cost allowance on flight equipment allowed for income tax purposes is substantially in excess of the depreciation recorded in the accounts. Consequently, the deferred tax liability which results from the tax allocation basis will be indefinitely postponed, and accordingly there should be no necessity to provide for an amount where the payment date is indeterminable.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration of the Directors and Officers of the company amounted to $275,000 (1972 - $229,000).

Riddell, Stead & Co.

CHARTERED ACCOUNTANTS 10117 Jasper Avenue, Edmonton, Alberta
T5J 1W8

AUDITORS' REPORT

To The Shareholders
Wardair Canada Ltd.

We have examined the consolidated balance sheet of Wardair Canada Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures, records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except for the effect of income taxes on earnings and retained earnings as explained in Note 8, these financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead & Co.

Riddell, Stead & Co.

April 1, 1974

EIGHT YEAR REVIEW

FINANCIAL

	1973	1972	1971	1970
Operating Revenue	$28,675,367	$19,581,242	$18,785,355	$16,446,470
Operating Profit	2,642,762	235,931	868,510	(399,376)
Net Earnings (loss)	913,781	271,996	563,191	(996,960)
Cash Flow provided by operations	3,690,760	1,651,579	1,982,586	323,147
Depreciation, amortization and overhaul provision	2,776,979	1,379,583	1,419,395	1,320,107
Interest on debt	1,877,191	465,171	512,913	544,589
Debenture debt repaid	1,729,235	1,135,000	955,000	350,000
Additions to property	28,768,853	839,283	191,983	661,458
Debenture Debt	30,979,308	5,118,475	5,780,000	6,735,000
Invested Capital	35,380,240	8,605,626	8,994,155	9,385,964
Percentage of debt to invested capital	87.6%	59.5%	64.3%	71.7%
Return on investment	7.9%	8.6%	11.7%	-4.5%
Operating ratio	9.2%	1.2%	4.6%	-2.4%
Debt to Equity Ratio	7.0	1.5	1.8	2.5
Price Earnings Ratio	5.5	33.3	8.6	--
Yield per international passenger mile	2.8¢	2.6¢	2.5¢	2.5¢
Earnings per share	28.2¢	8.4¢	17.4¢	(30.8¢)

OPERATING

	1973	1972	1971	1970
International Service Only				
Passengers Carried	273,659	205,677	187,665	149,968
Passenger miles (000's)	948,986	692,851	704,855	590,770
Freight Ton miles (000's)	--	307	--	462
Aircraft miles (000's)	5,524	5,647	5,592	4,958
Aircraft hours	11,208	11,781	11,413	10,139

PERSONNEL

	1973	1972	1971	1970
Average number of employees	666	520	470	429
Employee wages and benefits (000's)	$ 6,288	$ 4,817	$ 4,180	$ 3,600
Revenue per Employee (000's)	$ 43	$ 38	$ 40	$ 38

*Not Available

DISTRIBUTION OF CAPITAL

	SHAREHOLDERS				SHARES HELD			
	1973	1972	1971	1970	1973	1972	1971	1970
Canada	1,510	1,387	1,402		3,224,877	3,224,752	3,231,320	3,197,045
United States	15	15	14	16	11,689,	11,614	4,480	39,255
Other	5	5	6	5	1,000	1,200	1,600	1,100
	1,530	1,411	1,407	1,423	3,237,566	3,237,566	3,237,400	3,237,400

1969	1968	1967	1966
$12,971,259	$ 9,094,465	$ 5,110,833	$ 4,397,078
1,043,022	754,375	974,649	698,995
396,720	376,873	967,372	408,336
1,648,801	1,340,743	1,228,062	764,038
1,252,081	963,870	260,690	355,702
579,084	439,636	37,124	--
855,000	560,000	--	--
1,888,431	7,713,567	3,166,128	797,250
7,085,000	7,140,000	3,100,000	--
10,742,924	10,381,204	5,855,871	911,684
65.9%	68.8%	52.9%	--
9.2%	10.1%	29.7%	57.7%
8.0%	8.3%	19.1%	15.9%
1.9	2.2	1.1	--
18.3	*	*	*
2.7¢	3.2¢	3.7¢	3.5¢
12.3¢	11.7¢	30.3¢	14.9¢

106,830	65,340	26,797	23,593
432,878	256,755	117,196	100,209
2,231	--	--	--
2,653	2,512	1,338	1,190
6,469	5,210	2,829	2,689

340	300	231	*
$ 2,733	$ 1,925	$ 1,080	$ 786
$ 38	$ 30	$ 22	*

PERCENTAGE

1973	1972	1971	1970
99.61%	99.60%	99.81%	98.76%
.36%	.36%	.14%	1.21%
.03%	.04%	.05%	.03%
100.00%	100.00%	100.00%	100.00%

GLOSSARY OF TERMS

INVESTED CAPITAL
Sum of long-term debt and shareholders' equity.

RETURN ON INVESTMENT
Net income after income tax plus net interest expense expressed as percentage of invested capital.

OPERATING RATIO
Operating profit as a percent of operating revenues.

DEBT-EQUITY RATIO
Number of times long-term debt exceeds shareholders' equity.

PRICE-EARNINGS RATIO
Number of times market price exceeds earnings per share.

YIELD
Average revenue per revenue passenger mile.

PASSENGER MILES
Total revenue passengers carried multiplied by the number of miles they are flown.

FREIGHT TON MILES
Total tons of freight traffic carried multiplied by the miles flown.

DIRECTORS:

MAXWELL W. WARD	President, Wardair Canada Ltd.
M. D. WARD	Secretary-Treasurer, Wardair Canada Ltd.
T. L. SPALDING	Executive Vice-President, Wardair Canada Ltd.
W. T. BROWN	President, Odlum Brown & T. B. Read Ltd.

OFFICERS AND SENIOR EXECUTIVES:

MAXWELL W. WARD	President
T. L. SPALDING	Executive Vice-President
M. D. WARD	Secretary-Treasurer
G. D. CURLEY	Vice-President - Marketing
A. B. FREEMAN	Vice-President - Flight Operations
G. N. R. BELL	Vice-President - Maintenance
J. J. ESTOCK	Director of Finance & Assistant Secretary
T. B. DUNNIGAN	Comptroller
F. S. DORNAN	Manager of Northern Operations

HEAD OFFICE:	26th Floor, C. N. Tower, Edmonton, Alberta
TRUSTEES:	Montreal Trust Company
REGISTRAR AND TRANSFER AGENT:	Montreal Trust Company, Edmonton, Toronto and Vancouver
AUDITORS:	Riddell, Stead & Co., Edmonton
SHARES LISTED:	Vancouver Stock Exchange
BANKERS:	Royal Bank of Canada, Edmonton Canadian Imperial Bank of Commerce, Edmonton

SUBSIDIARIES

INTERNATIONAL VACATIONS LTD.

DIRECTORS:

MAXWELL W. WARD	Chairman and President, Wardair Canada Ltd.
M. D. WARD	Secretary-Treasurer, Wardair Canada Ltd.
T. L. SPALDING	Executive Vice-President, Wardair Canada Ltd.

OFFICERS and SENIOR EXECUTIVES:

MAXWELL W. WARD	President
T. L. SPALDING	Executive Vice-President
M. D. WARD	Secretary-Treasurer
G. D. CURLEY	Vice President and General Manager
J. J. ESTOCK	Director of Finance and Assistant Secretary

CANADA-U.K. TRAVEL CENTRE LTD.

DIRECTORS and OFFICERS:

MAXWELL W. WARD	Director
T. L. SPALDING	Director
G. D. CURLEY	Director
A. BURDEN	Managing Director
K. PARKINSON	Secretary
J. J. ESTOCK	Assistant Secretary

WARDAIR Canada LTD
26th Floor, CN Tower
Edmonton, Alberta
T5J 0K4

The Financial Editor,
The Globe & Mail,
140 King Street West,
TORONTO, Ontario.
M5H 1J5

WARDAIR CANADA LTD.

AND SUBSIDIARY COMPANIES

REPORT TO SHAREHOLDERS AND EMPLOYEES FOR THE FIRST SIX MONTHS OF 1974

THE HOLIDAY CHARTER AIRLINE

TO OUR SHAREHOLDERS AND EMPLOYEES

Earnings for the six-month period ending June 30th, 1974 were $388,532 compared to a loss of $689,303 for the same six-month period one year ago.

Traffic to winter resort destinations held up well during the winter and, in fact, we underserviced the market. North Atlantic traffic has been strong this year and is continuing strong during the Fall months.

We are planning the addition of a second Boeing 747 aircraft to our fleet in December of this year, which will increase the seats available on international operations from 818 to 1270 per day. Our financial projections indicate a sound earnings position at year-end 1974 and with the addition of a second jumbo jet to our fleet, financial projections for the years 1975 and 1976 indicate a continued sound profit position.

Construction of our new hangar building in Yellowknife is progressing and we expect to be complete to a usable status in October of this year. A nine-place MU-2 aircraft has been added to our Northern fleet and will provide the public with a category of fast, comfortable charter service not previously available through Northern operations.

It is noted that the conversion right on outstanding debentures expires on September 16th, 1974.

MAXWELL W. WARD
President

August 28th, 1974.

WARDAIR CANADA LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
For the Six Months Ended June 30,

	1974	1973
OPERATING REVENUE	$18,103,940	$11,707,649
OPERATING EXPENSES		
Flying Operations	10,148,055	6,833,199
Aircraft, Traffic and Passenger Services	3,159,164	1,982,410
Sales and Promotion	1,287,217	1,512,381
General and Administration	537,009	719,519
Depreciation and Amortization	1,600,507	969,782
	16,731,952	12,017,291
Income (Loss) from Operations	1,371,988	(309,642)
INTEREST ON LONG-TERM DEBT	1,280,052	529,334
	91,936	(838,976)
OTHER INCOME — Net	296,596	149,673
NET EARNINGS (Loss)	388,532	(689,303)
Retained Earnings at Beginning of Period	3,386,656	2,472,875
RETAINED EARNINGS AT END OF PERIOD	$ 3,775,188	$ 1,783,572
EARNINGS (Loss) PER SHARE	12¢	(21¢)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
For the Six Months Ended June 30,

	1974	1973
SOURCE OF FUNDS		
Net Earnings (Loss)	$ 388,532	$ (689,303)
Non-Cash Items		
Depreciation	1,437,020	907,791
Amortization of Deferred Charges	155,971	76,995
Provision for Overhaul	473,297	449,337
Funds Provided from Operations	2,454,820	744,820
Sale of Fixed Assets Net of Gains and Losses	18,074	673,178
Proceeds from Long-Term Debt	—	27,050,481
Deferred Charges Recovered	9,771	165,240
	2,482,665	28,633,719
APPLICATION OF FUNDS		
Fixed Asset Acquisitions	634,102	27,281,342
Reduction of Long-Term Debt	187,919	610,804
Deferred Charges Incurred	30,393	510,939
Overhaul of Aircraft and Engines	12,700	56,085
	865,114	28,459,170
INCREASE IN WORKING CAPITAL	1,617,551	174,549
Deficiency of Working Capital at Beginning of Year	3,330,986	3,173,410
DEFICIENCY IN WORKING CAPITAL AT END OF PERIOD	$ 1,713,435	$ 2,998,861

WARDAIR Canada LTD

REPORT TO THE SHAREHOLDERS

THE SYMBOL OF EXCELLENCE

in Jet Charter Flights

INTERIM REPORT TO SHAREHOLDERS

September 1st, 1971

Operating results for the first seven months of 1971 have shown a sharp reversal from results for the same period of 1970, based upon unaudited returns. Your company has gone from a loss position of $574,900 to a profit position (before taxes) of $412,355 for the same period, reflecting an improvement in net earnings of $987,255. As a result, our working capital has been increased by $632,000, compared to a decrease of $877,000 for the corresponding period of last year.

International Operations

Operating revenues from our international operations increased 23.7% over the corresponding period of 1970 while operating expenses increased only 13.2%. The variance in these percentages reflects the improvement in our marketing effort and better utilization of our jet fleet in achieving these higher gross revenues for the seven month period.

It is significant that in 1971, your company operated at a profit during the months of May and June and this trend has continued through July. However, two other significant factors should be noted. First, revenue and income for July, 1971 have decreased from our July, 1970 results. We believe, this is due to the increase in number of available seats in the summer market, brought about by an increase in the number of foreign carriers operating charter flights out of Canada in the peak summer season. Second, Wardair's average yield per flying hour in international operations has decreased $4.00 per hour during the first seven months of 1971. This is due to a lower yield on the Boeing 727. Despite these two adverse factors, our operating costs and overhead expenses have remained on target in accordance with our operating plan for 1971.

Gross revenues from inclusive tour contracts with tour operators have doubled in this seven month period over results in 1970 and we are continuing to expand aggressively our sales effort in this market. We are confident that the package holiday concept will continue to show steady growth and our marketing plans are to achieve an increased share of this market.

Northern Operations

The Northern Operation continues to show profitable results. While gross operating profit decreased slightly from the corresponding period of 1970, nevertheless, its net operating profit increased 5%. This improvement is the result of greater utilization of our highly efficient Twin Otter aircraft. In July, the Company disposed of one of its two single engine Otters at a profit. Current planning calls for an early sale of our remaining single engine Otter and, provided a suitable replacement for the Bristol aircraft becomes available, our ultimate objective is to phase out our Bristol aircraft inasmuch as Bristol aircraft maintenance and operating costs continue to increase as these aircraft grow older. In this connection, we will continue to evaluate various designs of freighter aircraft suited for the Northern Operation. Our long range planning studies show a requirement for at least two additional Twin Otter aircraft.

General

Advance charter bookings for the Fall/Winter season of 1971, are up over the same period of 1970. In addition, our sales to tour operators for the same period of 1971 are more than double those of Fall/Winter season of 1970.

Accordingly, our revenue outlook for the balance of 1971, looks encouraging. We are continuing our restraints on expenditures and we believe we will meet or exceed the objectives set forth in our 1971 operating plan. It is anticipated that by year-end we will achieve a substantial recovery from the poor operating results of 1970. In this connection, we have not nor do we intend to reduce our high standards of maintenance, schedule reliability and cabin services.

Our cash position has improved during 1971. This year we were able to pay off our short term loan obligations earlier than anticipated. However, it will be necessary to make short term borrowings again in the Fall of 1971.

There has been much publicity regarding various international air fare proposals of the scheduled air carriers at the recently concluded I.A.T.A. Conference in Montreal. While the scheduled carriers did not come to final agreement, we expect that some type of Trans Atlantic programme involving reduced fares on scheduled flights will emerge in the near future. Each year the scheduled airlines have promoted through I.A.T.A. or on their own, various reduced fare plans holding out the apparent promise to the public that they will be able to travel on scheduled flights at or near charter rates. Each year these promises have failed to materialize.

It is apparent that the scheduled airlines oppose the principle that a charter carrier should be permitted to specialize in a particular type of air service while they must absorb the high cost of providing a broad and complicated network of air services. Regardless of this opposition, the charter carrier has demonstrated that the charter concept provides the most efficient method of serving the mass holiday air travel market to the benefit of the general public and the general public has overwhelmingly endorsed reliable charter services.

Most of the empty seats currently plaguing the scheduled carriers on their routes could be absorbed in the sale of promotional fares which approach charter rates. However, the size of the charter market now far exceeds the availability of scheduled carrier charter capacity as a by-product of scheduled air services.

Public acceptance of the charter air fare coupled with the economic advantage of tailoring the product to meet the requirements of the consumer, and only those requirements, assures the charter operator of the dominant role in serving the charter market.

Your Company has established a solid reputation for good reliable air transportation service for the holiday traveler at low cost. We anticipate continued competition in the charter market, but we are confident charter carriers have a most promising future in the air transportation industry.

MAXWELL W. WARD, President

STATEMENT OF EARNINGS

(With comparative figures for 1970)

	Month of June 1971	Month of June 1970	Six Month Ended June 30th 1971	Six Month Ended June 30th 1970
OPERATING REVENUES	$2,350,669	$2,378,984	$8,477,071	$6,379,473
OPERATING EXPENSES				
Flying Operations	1,014,583	1,118,215	5,494,256	4,908,398
Aircraft, Traffic and Passenger Services	373,398	299,605	1,613,997	1,119,925
Sales and Promotion Expenses	100,494	68,983	459,282	590,761
General Administration Expenses	72,836	52,584	388,730	328,353
Depreciation and Amortization	105,157	105,100	626,725	589,376
	$1,666,468	$1,644,487	8,582,990	7,536,813
OPERATING INCOME (LOSS)	684,201	734,497	(105,919)	(1,157,340)
NON-OPERATING EXPENSES:				
Interest on Debentures and other debt	45,164	44,702	276,167	274,854
Non-Operating Expenses (Income) Net	(115,998)	10,978	(56,295)	36,916
	(70,834)	55,680	219,872	311,770
INCOME (LOSS) FOR PERIOD Before Provision for Income Taxes	$ 755,035	$ 678,817	$(325,791)	$(1,469,110)
EARNINGS (LOSS) PER SHARE	23c.	21c.	(10c.)	(45c.)

	Month of July 1971	Month of July 1970	Seven Months Ended July 31st 1971	Seven Months Ended July 31st 1970
OPERATING REVENUES	$2,631,092	$2,837,508	$11,108,163	$9,216,981
OPERATING EXPENSES				
Flying Operations	1,187,579	1,259,107	6,681,835	6,167,505
Aircraft, Traffic and Passenger Services	379,468	401,658	1,993,465	1,521,583
Sales and Promotion Expenses	70,131	90,773	529,413	681,534
General Administration Expenses	68,040	55,340	456,770	383,693
Depreciation and Amortization	104,445	99,434	731,170	688,810
	$1,809,663	$1,906,312	$10,392,653	$9,443,125
OPERATING INCOME (LOSS)	821,429	931,196	715,510	(226,144)
NON-OPERATING EXPENSES:				
Interest on Debentures and Other Debt	44,633	44,903	320,800	319,757
Non-Operationg Expenses (Income) Net	38,650	(7,917)	(17,645)	28,999
	83,283	36,986	303,155	348,756
INCOME (LOSS) FOR PERIOD Before Provision for Income Taxes	$ 738,146	$ 894,210	$ 412,355	$(574,900)
EARNINGS (LOSS) PER SHARE	23c.	27c.	13c.	(18c.)

September 1st, 1971

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the SIX Months Ended June 30, 1971

(With comparative figures for the same period in 1970)

	1971	1970
SOURCE OF FUNDS		
Net earnings (loss)	$ (325,791)	$ (1,469,110)
Non-cash charges		
Depreciation	584,604	561,376
Amortization of deferred charges	42,121	66,622
Provision for overhaul	278,737	395,213
Funds provided from operations	579,671	(445,899)
Overhaul provision — leased Boeing 727	-	56,572
Sales of fixed assets net of gains and losses	91,831	-
	671,502	(389,327)
APPLICATION OF FUNDS		
Fixed assets acquisition	130,667	475,196
Reduction of long-term debt	213,588	214,169
Deferred charges incurred	15,845	179,424
Overhaul of aircraft and engines	283,872	538,592
Advances and deposits	5,000	5,000
	648,972	1,412,381
INCREASE (DECREASE) IN WORKING CAPITAL	22,530	(1,801,708)
Deficiency in working capital at beginning of period	3,352,828	2,447,602
DEFICIENCY IN WORKING CAPITAL AT END OF PERIOD	$3,330,298	4,249,310

For the SEVEN Months Ended July 31, 1971

(With comparative figures for the same period in 1970)

	1971	1970
SOURCE OF FUNDS		
Net earnings (loss)	$ 412,355	(574,900)
Non-cash charges		
Depreciation	682,029	654,811
Amortization of deferred charges	49,141	79,758
Provision for overhaul	391,376	549,257
Funds provided from operations	1,534,901	708,926
Overhaul provision — leased Boeing 727	-	56,572
Sales of fixed assets net of gains and losses	91,831	1,000
	1,626,732	766,498
APPLICATION OF FUNDS		
Fixed assets acquisition	139,015	569,361
Reduction of long-term debt	447,866	314,169
Deferred charges incurred	16,427	187,425
Overhaul of aircraft and engines	386,522	568,008
Advances and deposits	5,000	5,000
	994,830	1,643,963
INCREASE (DECREASE) IN WORKING CAPITAL	631,902	(877,465)
Deficiency in working capital at beginning of period	3,352,828	2,447,602
DEFICIENCY IN WORKING CAPITAL AT END OF PERIOD	$2,720,926	$3,325,067

September 1st, 1971

AR44

From:
WARDAIR CANADA LIMITED

Contacts:
Margaret Slaney
Toronto (416) 364-5213

George Curley
Edmonton (403) 424-7371

Dave Laundy
Vancouver (604) 687-8636

CHRISTENING LAUNCHES NEW CHARTER FLYING ERA

A new era of Canadian charter flying was marked this week as two giants of Canadian aviation, Max Ward and Phil Garratt, launched Wardair's new 747 Super Jet with a christening ceremony in Everett, Washington, and inaugural flight to Toronto.

The 452-seat jetliner, appropriately named the Phil Garratt, will be the first 747 in charter service from Canada.

Special guests from eastern and western Canada, and some from outside the country, were on hand Wednesday, May 2 at the Boeing 747 plant at Everett, some 30 miles north of Seattle, for the ceremonies. They had been flown in by Wardair from both Toronto and Edmonton.

The $25 million Super Jet -- 231 feet long, 63 feet high at the tail, a wingspan of 195 feet and 360 tons -- left Everett an hour after the ceremony with eastern guests for the four-hour flight to Toronto International Airport. It was to go into North Atlantic charter service on Friday (May 4).

The advent of the new Advance Booking Charters (ABCs) plus greatly increased capacity of the 747, combined with the company's two 707s, enable Wardair to offer a total of 95,000 return seats to Europe this summer.

Phil Garratt, retired chairman of de Havilland Aircraft of Canada Limited, christened the big jet with a bottle of champagne, assisted by Maxwell W. Ward, president of Wardair Canada Ltd., and Joe Sutter, vice-president and general manager of Boeing's 747 division.

(more)

Ward made a name for himself with his drive and determination, and was one of the first to enter the international charter business in 1962 with a DC-6B. Introduction of the 747 -- the world's largest jetliner -- into exclusive charter service is a major milestone in his career.

Garratt, through his foresight and perseverance, rendered outstanding service to Canadian aviation with the development and worldwide marketing of many of Canada's unique bush planes and STOL (Short Take-Off Landing) aircraft.

Registration number of the big Wardair 747 (CF-DJC) is the same as that of the original small de Havilland Fox Moth with which Ward started in the aviation business in 1946.

A vintage Fox Moth, identical to Ward's original and recently purchased and completely rebuilt by Wardair, was on display at the Boeing plant a short distance from the giant 747.

Special guests attending Wednesday's christening and inaugural flight activities included representatives of government, the travel and aviation industries and the news media.

- 30 -

2/5/73

Phil Garratt, a Pioneer in Canadian Aviation

Wardair Canada Ltd. continued in its tradition of naming company jetliners after Canadian aviation pioneers when its first Boeing 747 was christened May 2 by Philip C. Garratt, 79, who for 22 years was Chairman of the de Havilland Aircraft of Canada Limited.

Immediately after the christening at Boeing's 727 plant at Everett, Washington, the "Phil Garratt" made its inaugural flight to Toronto International Airport with special guests aboard. It was to leave for London May 4 on its first North Atlantic charter run.

It is appropriate that the world's largest jetliner should be named for a giant of the Canadian aviation industry.

It was under Garratt's determined leadership that many of the world-famous Canadian bushplanes, and later, the more sophisticated STOL (Short Take Off and Landing) aircraft were developed and marketed around the world.

According to Maxwell W. Ward, president of Wardair Canada Ltd.:

"Canada owes a lot to Phil Garratt and to his foresight and perseverance to do a job and do it well. He developed utility aircraft in Canada. These are the planes that opened up our Northland and that today provide the lifelines to thousands of remote communities throughout this country."

Philip Clarke Garratt, a native of Toronto, began his flying career there as a student pilot in 1915. In 1916 he joined the Royal Flying Corps, served as a fighter pilot on the western front and was awarded the AFC. For the next 50 years, Phil Garratt continued to fly, was awarded the McKee Trophy for meritorious service in the advancement of Canadian aviation in 1951, the McCurdy Medal for his contribution to aviation in Canada in 1960 and was again awarded the McKee Trophy in 1965.

In the same year he received the Civic Award of Merit from the City of Toronto and a year later was the first winner of the C.D. Howe Award "for planning, policy-making and overall leadership in aeronautics and space."

(more)

In 1928 when de Havilland began its Canadian operation, Garratt was managing his own chemical business. However, he saw an opportunity to renew his great love for flying and offered his services on a part-time basis to de Havilland to test-fly and ferry their airplanes.

Eight years later, in 1936, flying won out and he wrapped up his own business to become General Manager of de Havilland Canada.

In 1946, after guiding the company through the peak-production years of World War Two with a staff of 7,000, he initiated the first "all Canadian" design, the Chipmunk trainer, which was adopted by countries around the world.

But Phil Garratt had long visualized the "ideal bushplane" designed specifically for operation in the Canadian north. After canvassing operators from coast to coast he set his designers to work to produce an all-metal landplane, skiplane, floatplane, amphibian. The result was the now famous Beaver, the aircraft that launched de Havilland Canada into the STOL era. Some 1,600 of these aircraft, designed initially for service in the Canadian bush, would be sold in 65 countries.

Success followed success with the design and marketing of the Otter, the Caribou, the Turbo-Beaver, the Buffalo and the twin turbo-powered Twin Otter -- all named after animals of the Canadian woods.

At the end of 1965, after nearly 30 years with the company, Garratt announced his retirement as Chairman of the Board. During these years he had seen the company grow from a small aircraft assembly operation occupying 1,200 square feet of work space, to an internationally recognized leader in STOL aircraft design, with production facilities of more than a million square feet.


WARDAIR Canada LTD
CF-DJC
BOEING 747
WARDAIR

Wardair's new 747, the "Phil Garratt".

MAY 2 1973

Quick Facts on Wardair

The Wardair Boeing 747 is the first 747 to go into charter service in Canada.

* * *

It is named after aviation pioneer Phil Garratt, retired chairman of de Havilland, who spearheaded the development and marketing of many of Canada's unique bush planes.

* * *

The Wardair Super Jet is valued at $25 million, has 452 seats, weighs over 360 tons, is 231 feet long and 63 feet high at the tail with wing span of 195 feet.

* * *

Phil Garratt christened the 747 with a bottle of champagne, assisted by Max Ward, president of Wardair Canada Ltd., and Joe Sutter, vice-president and general manager of the Boeing 747 division.

* * *

Registration number of the Wardair 747 (CF-DJC) is the same as that of Max Ward's original Fox Moth aircraft.

* * *

Wardair has purchased a vintage Fox Moth, identical to Max Ward's first plane, and has completely rebuilt it at the company's Edmonton hangar. It is in excellent flying condition.

* * *

Max Ward started his first company -- Polaris Charter Co. Ltd., -- in 1946 in Yellowknife, N.W.T.

* * *

Wardair, through its travel marketing subsidiary Intervac, is offering 95,000 return seats to Britain this summer from centres across Canada -- a total of 350 flights on 747 and 707 aircraft. A further 12,000 seats will originate in the United Kingdom with Canadian destinations.

* * *

To date, more than 80 per cent of May and June availabilities and more than 70 per cent of July have been sold. All of April was completely booked. Over 60 per cent of the availabilities for the whole season which ends in October have already been sold.

* * *

The Wardair 747 and 707s will fly daily during the winter months for a variety of selected tour operators to the Caribbean, Hawaii, Mexico and Spain.

* * *

Head office of Wardair Canada Ltd., is at Edmonton. It has offices in the major centres across Canada and in London, England.